



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

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MAY – AUGUST 2021

Ext 1022/23/25

FACULTY OF ARTS AND SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

REGULAR PROGRAMME

ECO 804: MACROECONOMIC THEORY II

Date: AUGUST 2021

Duration: 3 Hours

INSTRUCTIONS: Answer any FOUR Questions

**Q1.**

- a) Discuss the applicability of the Harrod-Domar model of Economic growth in Sub-Saharan Africa (8 marks)
- b) Discuss the concept of consumption smoothing and its relevance in your country (7 marks)

**Q2.**

- a) An economy is described by the following equations:

$$Y_t = C_t + S_t \quad (1)$$

$$S_t = I_t \quad (2)$$

$$K_{t+1} = I_t + (1 - 0.04)K_t \quad (3)$$

$$Y_t = 0.25K_t \quad (4)$$

In this economy, the saving rate,  $s$ , is given by  $s = 0.25$ . We are further told that the population grows at a constant rate of 2% per year (i.e.,  $n = 0.02$ ).

- i) Find the annual GDP growth rate (5 marks)

- ii) Determine the annual per capita GDP growth rate (3 marks).

Remember to show all your workings.

- b) Discuss some of the solutions to inflation bias. (7 marks)

**Q3.**

- a) Discuss the impact of asymmetric information in financial markets in your country (6 marks)
- b) Examine the difference between a foreign bond and a Eurobond (4 marks)
- c) Discuss and illustrate the concept Adverse of selection in financial markets (5 marks)

**Q4.**

- a) Briefly discuss the Okun's law concept (6 marks)
- b) Describe how the stickiness of wages and prices affect the slope of the Philip's curve and its (slope) implication (9 marks)

**Q5.**

- a) Examine the economy in light of a baseline-real business cycle model (6 marks)
- b) Examine the degree of the independence of your country's Central bank (9 marks)

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